



**MALAYSIAN RATING CORPORATION BERHAD**

(364803-V)

# **P R E S S   A N N O U N C E M E N T**

**FOR IMMEDIATE RELEASE**

## **MARC ASSIGNS INVESTMENT MANAGER RATING OF IMR-2 TO KENANGA INVESTORS BERHAD AND KENANGA ISLAMIC INVESTORS BERHAD**

MARC has assigned an investment manager rating of **IMR-2** to Kenanga Investors Berhad (KIB) and to KIB's wholly-owned subsidiary Kenanga Islamic Investors Berhad (KIIB). KIB is a fund management company managing both conventional and Islamic schemes while KIIB solely provides Shariah-compliant investment management services.

This is the first rating announced by MARC under its investment manager rating (IMR) methodology. The IMR assesses investment processes and risk management practices in relation to the size and complexity of investment management activities as well as the investment manager's vulnerability to financial or operational failure. MARC believes that IMR will assist investment managers in discharging their fiduciary duties, meeting the increasing demand for accountability and maintaining good corporate governance. MARC is confident that an IMR can become a catalyst for investment managers to achieve even better performance.

The rating on KIB reflects its well-established investment process, strong risk management practice and operating track record. These factors are counterbalanced by KIB's moderate size and financial profile. Wholly-owned by Kenanga Investment Bank Berhad (KIBB), KIB serves as its parent's fund management arm. It established its first unit trust fund in 1996, and its portfolios have steadily grown to 26 unit trust funds (including those managed by KIIB), 20 wholesale funds and seven private retirement funds as at end-December 2016. In addition, it also manages privately mandated funds from government agencies and pension funds. As at end-December 2016, KIB had modest assets under management (AUM) of RM7.1 billion, accounting for about 1.0% of total AUM in Malaysia. MARC notes that KIB's AUM registered a steady growth over the last two years. The pace is expected to be maintained over the medium term.

MARC considers KIB's investment management process as well-entrenched, underpinned by a comprehensive investment analysis and portfolio construction process. These are supported by appropriate information systems that allow for methodical analysis and timely investment decisions. KIB also benefits from sharing common resources with KIBB. Key support functions, including information technology, human resources, internal audit and enterprise risk management, are managed at the group level, providing KIB with significant cost savings.

MARC views KIB's 16-member investment team to have sufficient expertise. The investment team comprises analysts and portfolio managers with senior team members having more than 10 years of relevant experience in domestic and regional markets. KIB's fund strategy is deemed as less

complex and as suitable for the domestic demand environment. Its investments are mainly in traditional asset classes of equity, fixed income and money market while its overseas investment activities are relatively new, only accounting for 0.3% of its total AUM as at end-December 2016. The fund manager's resources and infrastructure should be able to cater for the additional AUM growth. Its key business strategy is to expand distribution channels for investment products from its current base of 1,200 unit trust agents, 800 private retirement scheme agents and 18 bank and non-bank institutional unit trust advisers across 11 regional offices.

MARC observes KIB has adopted the governance and risk management framework of its parent KIBB, under which clear and independent reporting lines between various risk management functions have been established. Policies and infrastructure, which have been put in place to manage compliance risk, conflict of interest, counterparty risk and business continuity risk, are well supported by information systems for risk analysis and compliance checking functions.

KIB's investment track record is strong, as about 80% of its unit trust funds outperformed their respective benchmarks for the one-year, three-year and five-year returns.

KIB's profitability has been affected by the recent weak market conditions which have weighed on its funds' performance. Additionally, given its modest AUM size, management fees generated are just about sufficient to meet its operating expenses. In MARC's view, the growth in KIB's AUM would be key to generating higher management fees to be able to meet operational expenses as well as provide a buffer against the more volatile performance fees.

In respect of its Islamic subsidiary KIIB, the rating agency notes the significant integration with KIB through shared resources and infrastructure. KIIB has AUM of just RM1.5 billion as at end-December 2016, reflecting the Islamic fund manager's nascent stage of growth.

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[This announcement is available in the MARC corporate homepage at <http://www.marc.com.my>]

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